

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
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HONG KONG FOR TREASURY REPRESENTATIVE

E.O. 11652: N/A
TAGS: EFIN, RP
SUBJECT: CREDIT PINCH AND ILLIQUIDITY OF FILCAPITAL

1. SUMMARY. ATTEMPTS BY MONETARY AUTHORITIES TO STEM AN OVER-EXUBERANT MONEY SUPPLY EXPANSION HAVE EXACERBATED A CREDIT SQUEEZE CAUSED BY SEASONAL FACTORS, CREDIT DEMANDS OF OIL INVENTORY BUILDUPS, AND BUDGET DEFICIT FINANCING. THE RESULTING HIGH COST OF SHORT TERM MONEY HAS COINCIDED WITH ONE POORLY-MANAGED INVESTMENT HOUSE GOING TO THE WALL. THE FIRM HAS TEMPORARILY SUSPENDED OPERATIONS, BUT WILL PROBABLY BE ABLE TO MEET ITS OBLIGATIONS UPON SALE OF SOME ASSETS. PROSPECTS ARE FOR CONTINUED TIGHT CREDIT INTO THE FIRST PART OF NEXT YEAR. END SUMMARY.

2. TIGHTENING CREDIT SCREWS HAVE BEEN THE OCCASION FOR ONE SHAKY MANILA INVESTMENT HOUSE GOING OVER THE BRINK INTO "VOLUNTARY ILLIQUIDITY." FILCAPITAL DEVELOPMENT CORP. ANNOUNCED THAT IT IS TEMPORARILY SUSPENDING MARKET OPERATIONS BEGINNING ON DECEMBER 17, AND THAT FURTHER
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DEVELOPMENTS WILL AWAIT ATTEMPTS TO SELL SOME OF ITS ASSETS, INCLUDING A BUILDING IN MAKATI. FILCAPITAL (FORMERLY GENBANCOR) IS THE INVESTMENT HOUSE SUBSIDIARY OF GENERAL BANKING, FROM THE INVESTMENT HOUSE SUBSIDIARY OF GENERAL BANKING, FROM WHICH GRINDLAY'S WITHDREW EARLIER THIS YEAR OVER DIFFERENCES IN MANAGEMENT.

SOURCES IN THE MANILA FINANCIAL COMMUNITY HAVE TOLD US THAT FILCAPITAL'S TROUBLES ARE OF ITS OWN MAKING, TRACEABLE TO UNWISE INVESTMENTS AND MANAGEMENT WHICH HAS BEEN POOR AT BEST AND POSSIBLY CORRUPT. AT THE SAME TIME, IT IS APPARENT THAT THE IMMEDIATE CAUSE OF THE FIRM'S INABILITY TO COVER ITS OBLIGATIONS IS THE CURRENT CREDIT SQUEEZE, WHICH IS CAUSING SOME DIFFICULTY FOR ALL LENDING INSTITUTIONS.

3. TIGHT CREDIT IS THE RULE AT THIS TIME OF YEAR, AS PAYMENTS ON LETTER OF CREDIT FOR HEAVY CHRISTMAS SEASON IMPORTS FALL DUE. AN ADDED FACTOR THIS YEAR HAS BEEN THE REPORTED STOCKPILING OF OIL IN EXPECTATION OF A PRICE INCREASE. THIS SEASONAL PHENOMENON WAS EXACERBATED THIS YEAR, HOWEVER, BY POLICY DECISIONS FROM THE MONETARY BOARD. IN OCTOBER, THE CENTRAL BANK BEGAN TO CUT BACK ON DISBURSEMENTS AND TO OPEN ITS REDISCOUNT WINDOW ONLY SELECTIVELY. IN MID-NOVEMBER, THE CENTRAL BANK BEGAN TO CLAMP DOWN ON USE OF ITS REDISCOUNT WINDOW, AND AT THE SAME TIME ANNOUNCED A PROHIBITION AGAINST COMMERCIAL BANK'S PERMISSION OF TEMPORARY OVERDRAFTS. BY EARLY DECEMBER, MATURING REPURCHASE AGREEMENTS WITH THE CG WERE BEING CALLED, WITH ROLLOVERS BEING GRANTED ONLY INFREQUENTLY. OTHER FACTORS HAVE BEEN A HIGHER RESERVE REQUIREMENT FOR DEPOSIT SUBSTITUTES AND FINANCING OF A 1.8 BILLION PESO BUDGET DEFICIT THROUGH THE FIRST TEN MONTHS OF THE YEAR. MONEY MARKET RATES HAVE RESPONDED BY RISING FROM 11 PERCENT (90-DAY INTERBANK RATE) AT THE END OF JULY, THROUGH 13 PERCENT IN MID-OCTOBER, LIMITED OFFICIAL USE

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TO A PRESENT LEVEL OF 14 PERCENT.

4. GOP MONETARY AUTHORITIES HAVE BEEN RELATIVELY CANDID IN RECENT PUBLIC DISCUSSION OF REASONS FOR WISHING TO LIMIT MONETARY EXPANSION. IN THE FIRST WEEK OF DECEMBER, SECRETARY OF FINANCE VIRATA DEFENDED RATES OF EXPANSION OVER THE LEGAL LIMIT OF 15 034:3,5 (SPECIFIED IN THE CB CHARTER), EXPLAINING THAT IT HAD BEEN CAUSED LARGELY BY INVENTORY FINANCING OF SUGAR STOCKS. (THE SUGAR INDUSTRY'S FINANCING PROBLEMS HAVE BEEN REPORTED PREVIOUSLY.) ON DECEMBER 14, VIRATA WAS QUOTED BY BUSINESS DAY AS STATING THAT "THERE IS NOW A NEED TO HALT THE EXCESSIVE CREDIT EXPANSION." CENTRAL BANK GOVERNOR LICAROS MADE A SIMILAR STATEMENT.

5. AN IMF TEAM WAS HERE FOR CONSULTATIONS ON THE EXTENDED FUND FACILITY IN NOVEMBER AND EARLY DECEMBER. LOCAL IMF REPRESENTATIVE AVINASH BHAGWAT TOLD AN EMBASSY

OFFICER THAT THE IMF POSITION ON THE SUGAR FINANCING SITUATION IS "DELICATE", SINCE IMF IS IN NO POSITION TO TAKE A STRONG HAND, BUT THE IMF WAS CLEARLY UNHAPPY WITH GOP FAILURE TO FACE UP TO THE SITUATION, ESPECIALLY AS IT BECAME APPARENT THAT THE PROBLEM IS AT LEAST MEDIUM TERM AND NOT ENTIRELY A SHORT TERM MARKETING PROBLEM. BHAGWAT SAID THAT HE REGARDED THE GOP DECISION IN EARLY DECEMBER TO RAISE PRICES AS "POLITICALLY COURAGEOUS", THOUGH HE ACKNOWLEDGED THAT A LONG-TERM SOLUTION IS NOT YET IN SIGHT. BHAGWAT INDICATED THAT HE CONSIDERED OVERALL PERFORMANCE ON MONEY SUPPLY TO BE SATISFACTORY.

6. PROSPECTS ARE FOR CONTINUED TIGHT MONEY, AT LEAST THROUGH THE FIRST PART OF 1977. FILCAPITAL MAY WEATHER THE STORM, AND RUMOR HAS IT THAT PCI BANK WILL COME T THE RESCUE BY TAKING OVER FILCAPITAL'S BUILDING IN MAKATI. ANY OTHER WEAK SISTERS IN THE FINANCIAL LIMITED OFFICIAL USE

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COMMUNITY FACE A GLOOMY CHRISTMAS SEASON. SULLIVAN

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Message Attributes

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